

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 /102 W
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R 060050Z JUL 77
FM AMEMBASSY BONN
TO SECSTATE WASHDN 0000
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 4)

REF: BONN 10354; BONN 10794

1. FOREIGN EXCHANGE MARKET:
IN ACTIVE TRADING THE DOLLAR FELL SHARPLY ON GERMAN
FOREIGN EXCHANGE MARKETS DURING THE PERIOD UNDER REVIEW.
FROM TUESDAY A WEEK AGO, WHEN THE DOLLAR WAS FIXED AT
\$1 EQUALS DM 2,3536, TO TODAY'S FIXING OF \$1 EQUALS
DM 2,3103 THE DOLLAR HAS DEPRECIATED BY MORE THE 1.8
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PERCENT AGAINST THE DEUTSCHEMARK. FOREX DEALERS
ATTRIBUTE THE DECLINE TO A NUMBER OF FACTORS INCLUDING
THE OPEC PRICE INCREASE DECISION, WEAKENING ECONOMIC
INDICATORS IN THE U.S. AND, ALMOST UNANIMOUSLY, TO THE
STRONG U.S. STATEMENTS DURING THE RECENT OECD MINISTE-
RIAL. GERMAN STATEMENTS ABOUT THE U.S. BALANCE OF
PAYMENTS DEFICIT ALSO MAY HAVE GELPED. FRANKFURT SPOT

AND FORWARD DOLLAR RATES DURING THE PERIOD DEVELOPED
AS FOLLOWS:

	FORWARD DOLLARS					
	SPOT DOLLARS		(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MOS	
JUNE 28	2.3556	2.3536	2.3540	-1.9	-2.0	
29	2.3490	2.3400	2.3380	-1.3	-1.9	
30	2.3355	2.3380	2.3395	-1.9	-1.9	
JULY 1	2.3380	2.3392	2.3410	-2.0	-2.0	
4	2.3350	2.3238	2.3185	-1.8	-2.0	
5	2.3147	2.3103	N.A.	N.A.	N.A.	

2. MONEY SUPPLY:

IN MAY, M1, M2 AND M3 DEVELOPED AS FOLLOWS (CHANGES IN
DM BILLION):

SEASONALLY ADJUSTED

FEB. MAR APR MAY

M1	2.0	-1.3	1.2	2.4
M2	2.1	1.0	0.9	3.4
M3	4.1	1.5	1.5	4.8

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SEASONALLY UNADJUSTED

FEB. MAR APR MAY

M1	1.3	0.3	2.9	4.4
M2	2.2	-2.3	4.1	7.1
M3	3.2	-3.5	3.5	7.3

INDIVIDUAL COMPONENTS OF THE MONEY SUPPLY DEVELOPED
AS FOLLOWS (CHANGES IN DM BILLION):

	MAY	APRIL
	1977	1976 1977

I. LENDING TO DOMESTIC

NON-BANKS	4.1	7.1	7.5
FROM BUNDESBANK	1.7	0.3	-0.1
FROM COMMERCIAL BANKS	2.5	6.9	7.5
TO PUBLIC SECTOR	-1.6	2.8	1.4
TO PRIVATE SECTOR	4.0	4.0	6.1

II. NET EXTERNAL POSITION OF

BUNDESBANK AND COMMERCIAL

BANKS 0.1 -1.1 -1.3

III. LONG-TERM BANK DEPOSITS

AND OUTSTANDING BANK

BONDS (1) 2.5 3.7 3.6

IV. OFFICIAL ASSETS HELD AT

CENTRAL BANK -3.4 -2.0 -2.7

V. OTHER -2.2 -1.6 1.8

VI. ME (2) (EQUALS I PLUS II

MINUS III MINUS IV

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MINUS V) 7.3 5.9 3.5

VII. M2 (M3 MINUS SAVINGS

DEPOSITS) 7.1 5.0 4.1

VIII. M1 (M2 MINUS TIME DEPO-

SITS) 4.4 5.8 2.9

(1) EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS, AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE, AND BONDS HELD BY BANKS.

(2) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE.

3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JUNE 16-23 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 84.7 BILLION. GERMANY'S IMF BOLD TRANCHE POSITION DECREASED BY DM 109 MILLION, FOREIGN EXCHANGE HOLDINGS BY DM 111 MILLION WHILE FOREIGN LIABILITIES ROSE BY ABOUT DM 180 MILLION.

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SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

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-----063669 060323Z /72

R 060050Z JUL 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9574

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

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4. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY WAS SUBSTANTIALLY REDUCED BY PAYMENTS FOR THE MAJOR MID-JUNE TAX DATE AND DUE TO BORROWINGS OF PUBLIC AUTHORITIES, INCLUDING THE DM 2.0 BILLION SALE OF FEDERAL MEDIUM-TERM NOTES (SEE BONN 10354). DUE TO THESE TRANSACTION NET ASSETS OF THE FEDERAL GOVERNMENT HELD AT THE BUNDESBANK INCREASED BY DM 7.7 BILLION AND STATE GOVERNMENT ASSETS ROSE BY DM 4.4 BILLION. ASSETS OF OTHER PUBLIC AUTHORITIES DECLINED BY DM 0.3 BILLION. OTHER FACTORS INCLUDING THE ABOVE DECLINE IN BUNDESBANK MONETARY RESERVES REDUCED LIQUIDITY BY DM 2.1 BILLION, NET.

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IN ORDER TO OFFSET THE LIQUIDITY DECLINE BANKS REDUCED SUBSTANTIALLY THEIR HOLDINGS OF RESERVES AT THE BUNDESBANK BY DM 11.3 BILLION TO DM 36.4 BILLION. (HOWEVER, IN THE PERIOD JUNE 1-23 SUCH RESERVES, ON AVERAGE PER DAY, WERE STILL DM 46.6 BILLION AS COMPARED WITH PRELIMINARY JUNE RESERVE REQUIREMENTS OF DM 45.5 BILLION). THE ONLY OTHER FACTOR INCREASING LIQUIDITY WAS A DM 1.6 BILLION DECLINE IN CURRENCY IN CIRCULATION.

THE BANKS HAD TO INCREASE THEIR CENTRAL BANK INDEBTED-

NESS BY DM 1.0 BILLION TO DM 13.4 BILLION (REDISCOUNT BORROWINGS: PLUS DM 0.4 BILLION, LOMBARD BORROWINGS: PLUS DM 0.6 BILLION).

5. MONEY MARKET:

FOLLOWING A SCRAMBLE FOR FUNDS AT THE END OF JUNE (SEE PARA ON BANK LIQUIDITY) WHICH PUSHED CALL MONEY RATES UP TO ALMOST 5.0 PERCENT AT ONE POINT, CALL MONEY RATES HAVE EASED IN THE FIRST DAYS OF JULY. CURRENTLY, CALL MONEY IS AGAIN AT ABOUT THE 4.5 PERCENT LOMBARD RATE. FOR THE PERIOD JUNE 28-JULY 4, FRANKFURT INTERBANK RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
JUNE 28	4.6-4.8	4.15	4.25
29	4.5-4.8	4.15	4.25
30	4.5-4.9	4.15	4.25
JULY 1	4.5-4.6	4.20	4.25
4	4.4-4.6	4.20	4.25

6. BOND MARKET:

THE MARKET FOR DOMESTIC BONDS REMAINED CALM. PRICES UNCLASSIFIED

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CHANGES ONLY marginally. ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY (YEARS)	1	3	5	6	8	10
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JULY 3	4.60	5.50	6.00	6.20	6.55	6.65
JUNE 24	4.70	5.50	6.05	6.30	6.55	6.70

7. FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM BONDS, THE FOLLOWING ISSUES HAVE BEEN OFFERED: CITY OF MONTREAL: PRIVATE PLACEMENT OF DM 150 MILLION, COUPON 7.25 PERCENT, MAXIMUM MARTURITY 10 YEARS. AVERAGE MATURITY OF THE ISSUE IS 8 YEARS DUE TO REDEMPTION FEATURES PROVIDED THROUGH A SINKING FUND. MINOLTA CAMERA OSALKA, DM 50 MILLION, COUPON 6 PERCENT, 10 YEARS. GRAND METROPOLITAN OF FINLAND: DM 60 MILLION, 7 PERCENT COUPON, 7 YEARS.

8. INTEREST RATE REDUCTION:

FOLLOWING THE REDUCTION IN YIELDS ON FEDDRAL SAVINGS BONDS (SEE BONN 10794) THE BUNDESBANK, EFFECTIVE JULY 1, 1977, ALSO REDUCED DISCOUNT RATES ON SO-CALLED FINAN- ZIERUNGSSCHAETZE WHICH IS PAPER PURCHASED BY INDIVIDUALS AND FIRMS TO COVER ANTICIPATED TAX PAYMENTS. NEW RATES

FOR BOTH TYPES OF PAPER AND, FOR COMPARISON, PREVIOUS
RATES ARE AS FOLLOWS:

MATURITY (MONTHS)

	6	12	18	24
NEW NOMINAL RATE	3.65	4.00	4.40	4.75
YIELD TO MATURITY	3.72	4.17	4.64	5.12
PREVIOUS NOMINAL RATE	3.90	4.25	4.65	5.00
YIELD TO MATURITY	3.98	4.44	4.92	5.41

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9. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES
(PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL)

	APRIL	MAY	JUNE
LIVING COSTS	3.8	3.8	4.0
IMPORT PRICES 1/	5.2	3.6	---
EXPORT PRICES 1/	2.1	1.5	---

1/ CALCULATED ON THE BASIS OF INDICES REFLECTING THE
DEVELOPMENT OF PRICES FOR A GIVEN (1970) BASKET OF GOODS.

UNEMPLOYMENT IN JUNE (NON-SEASONALLY ADJUSTED) DECLINED
LESS THAN MIGHT HAVE BEEN EXPECTED FOR SEASONAL REASONS,
I.E., BY 15,500 FOR A TOTAL OF 931,000. THUS, FOR THE
FIRST TIME THIS YEAR, UNEMPLOYMENT EXCEEDED COMPARABLE
1976 LEVELS. THE UNEMPLOYMENT RATE (NON-SEASONALLY
ADJUSTED) CAME TO 4.1 PERCENT IN JUNE, THE SAME AS IN
MAY 1977 BUT SLIGHTLY HIGHER THAN THE 4.0 PERCENT
RECORDED IN JUNE 1976. SEASONALLY ADJUSTED UNEMPLOY-
MENT FIGURES WILL BE REPORTED UPON RECEIPT. MAY ORDER
VOLUME AND INDUSTRIAL PRODUCTION DATA REPORTED SEPARATE-
LY TODAY.
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Message Attributes

Automatic Decaptioning: X
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Copy: SINGLE
Sent Date: 06-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
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Disposition History: n/a
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Errors: N/A
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Film Number: D770238-1269
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770789/aaaacznn.tel
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Review Media Identifier:
Review Release Date: n/a
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Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 4)
TAGS: EFIN, GE
To: STATE TRSY
Type: TE
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